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C O N F I D E N T I A L SECTION 01 OF 02 VILNIUS 001190

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STATE FOR EUR/NB

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TAGS: [PGOV](#) [PREL](#) [LH](#)

SUBJECT: LITHUANIA'S PM FACES CHALLENGE TO HIS INTEGRITY
AND TO HIS CONTROL

Classified By: Pol/Econ Officer Gregory L. Bernstein for reasons 1.4(b)
and (d)

SUMMARY

1. (C) Allegations that Prime Minister Brazauskas's wife benefited from a sweetheart deal with Russian oil giant Lukoil are prompting new strains in Lithuania's ruling coalition. Coalition leaders reined in an anti-Brazauskas movement November 2, but confrontation is brewing with the opposition over whether to investigate the charges. Brazauskas threatens to resign if such an investigation goes forward. The controversy takes place on the eve of politically charged negotiations to transfer the Mazeikiu Nafta oil refinery -- Lithuania's largest industrial enterprise -- from Yukos to a new investor. Brazauskas has significantly distanced himself from Lukoil in the pre-negotiation jockeying, but widespread suspicion that he secretly supports its interests remains. The coalition will

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survive for at least the short term. But Brazauskas's curious volatility on the scandal -- he unsuccessfully threatened the leader of the opposition with criminal charges for raising it -- has aroused a sense of vulnerability that will likely provoke continuing assaults on the coalition from without and within. END SUMMARY.

The "old man" of Lithuanian politics under fire

2. (U) Charges emerged in late September that Brazauskas's wife in 2004 had purchased a 38 percent share in Vilnius's Crown Plaza Hotel, in which she already had a controlling interest, on ridiculously favorable terms from an investor linked to Lukoil. Mrs. Brazauskas's growing ownership of the hotel since its privatization early in the decade and her marriage to the Prime Minister in 2002 had long been the subject of jokes and intrigue on the Vilnius political scene. Opposition Conservative Party leaders cited the latest charges as evidence that the Brazauskas family is secretly tied to Lukoil's interests, even as the firm jockeys to acquire the Mazeikiu Nafta refinery. The Conservatives demanded a parliamentary ethics investigation and quickly won the 36 necessary signatures that the rules of parliamentary procedure required to launch such an investigation.

3. (U) Brazauskas responded defiantly on October 19 that he would refuse to cooperate with such a commission, and later went on to say that he would resign if the Parliament launched the investigation. Upping the ante even further, he called on Lithuania's Prosecutor General to charge the three Conservative members of Parliament who launched the drive for an investigation with criminal slander. When the Prosecutor General refused, Brazauskas then initiated civil suits against his opponents.

4. (U) Smelling blood, other members of the coalition began to pile on. Labor Party leader Viktor Uspaskich, who rarely criticizes his coalition partners, even after a parliamentary commission forced him to resign from Government and the parliament, suggested on October 28 the PM follow through with his threat to step down. He said such a step would dissolve the coalition agreement and open up the premiership to others. Members of other coalition parties also began questioning the PM family's business dealings and signaled they would support an investigation.

Mending fences and shoring up fortresses

5. (U) Brazauskas convened a special meeting of the four-party coalition council November 2 to restore discipline. Brazauskas's supporters argued that the goals of the proposed commission are political and have nothing to do with government work; that the business affairs of his wife of only three years have nothing to do with the PM; and that establishing a commission was a vote of no-confidence and

will obstruct the business of Government. Coalition leaders, including Uspaskich, renewed their support for the coalition's continuation with Brazauskas as Prime Minister and vowed to defeat a motion to form the commission when it comes to a vote November 8.

Confrontation Brewing

16. (U) Opposition leaders and Parliamentary Ethics Commission Chairman Algirdas Monkevicius, however, insist that parliamentary rules of procedure require the establishment of a commission whenever 36 members of Parliament request it. As more than 40 have requested the commission, they argue that an investigation must go forward regardless of any parliamentary vote. Speaker of the Parliament Arturas Paulauskas stuck to the coalition line in insisting November 3 that a majority vote in the Parliament can block the investigation. Thus the stage is set for a major confrontation that could end up in the courts for resolution.

Oil Politics Looming

17. (U) The political conflict is playing out in the broader context of the negotiations that will shortly begin over control of Lithuania's largest industrial asset, the Mazeikiu Nafta oil refinery. Yukos, the refinery's current majority owner, is seeking to sell its control of the refinery back to the government, which in turn will sell it to a new investor. Lukoil is seeking to purchase the controlling shares in the refinery in partnership with ConocoPhillips. In an obvious move to deflect charges that he is secretly promoting the interests of Lukoil, Brazauskas recently declared that the government favors the joint bid of British Petroleum and another Russian oil company TNK and would begin negotiations with the two companies during the week of November 7. Further, he said he would not pursue any deal with Lukoil without the Parliament's explicit approval.

18. (C) Opposition leader Andrius Kubilius told the Ambassador November 2 that the Conservative Party had raised the concerns about Brazauskas family business dealings in order to derail a Lukoil bid to acquire Mazeikiu Nafta. He noted that Lukoil's close ties to the Kremlin, and its history of political meddling in Lithuanian politics, raised concerns that a successful Lukoil bid would threaten Lithuania's national security. "If our efforts bring about the collapse of the governing coalition, so much the better," he said.

COMMENT

19. (C) The Prime Minister's vitriolic response to what at least superficially seems fair game for an ethics investigation has raised widespread suspicion that Brazauskas has something to hide. Though he has succeeded in reining in his coalition behind him, the ugly confrontation that is looming over the parliamentary rules governing ethics investigation will guarantee this issue remains on the front pages for at least the next week. That in turn will prompt continuing efforts to seize advantage, both within and without the coalition. Regardless of the outcome of the issue, it will be much harder now for Brazauskas to sign Mazeikiu Nafta over to Lukoil -- a significant achievement for the opposition's efforts to keep Lukoil out of Lithuania.

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